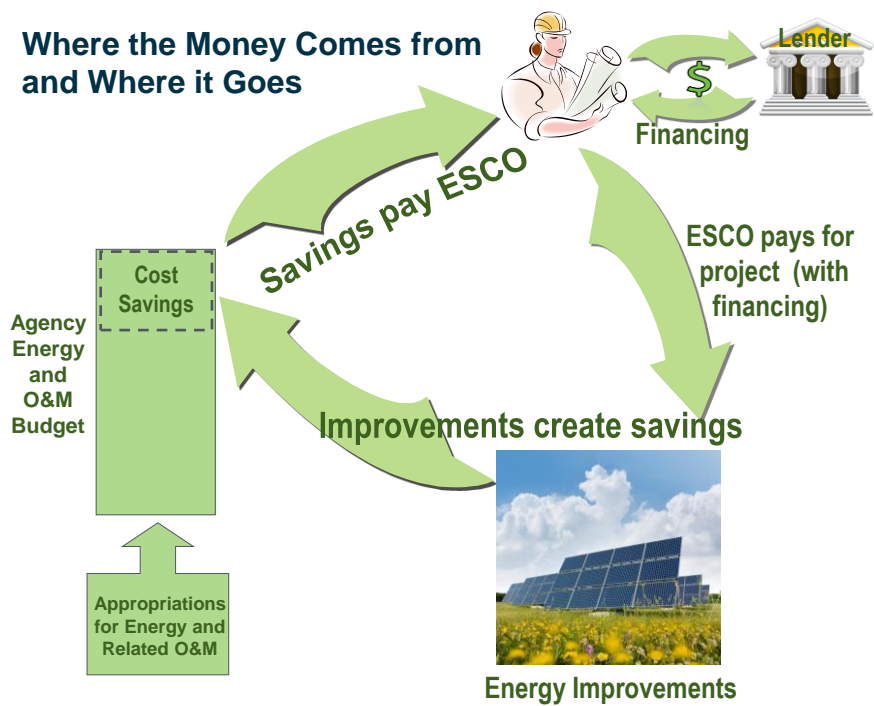


Proposal Review – Financing

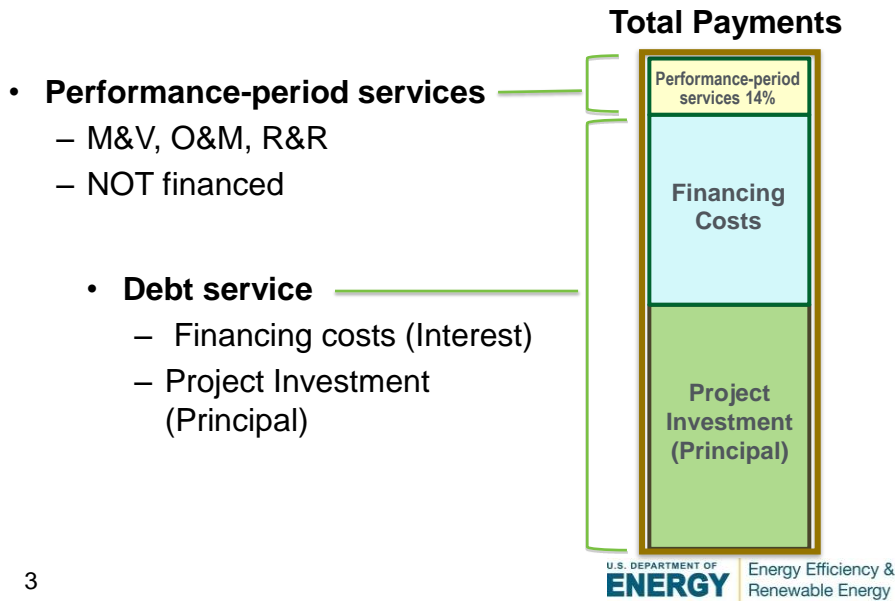


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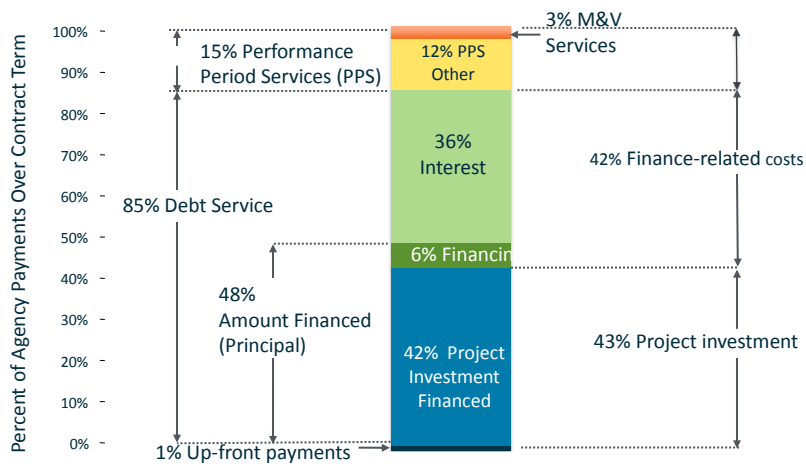
What's in the payments?



3

How the Payments Break Down —

The DOE-FEMP ESPC “Cost Stack”



4

What is Financed ?

Amount Financed =

- ECM project development expense
+ indirects and profit
- ECM design/construction expense
+ indirects and profit
- Financing procurement price (FPP)
(see notes for more information on FPP and construction-period interest)
- *Minus* any one-time payments (usually before project acceptance)

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Competition in ESPC Financing

- FEMP-DOE ESPC ESCOs are required to solicit competitive financing offers
- *Selection of financing is the ESCO's responsibility*
- Required documents (IDIQ attachments J-11 and J-12) make financing offers directly comparable
 - *IDS (Investor's Deal Summary)*
 - ESCO solicits offers from financiers using the IDS (the same form for every solicitation)
 - *SFO (Standard Financing Offer)*
 - Financiers make offers using SFO



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Selection of Financier and Certification

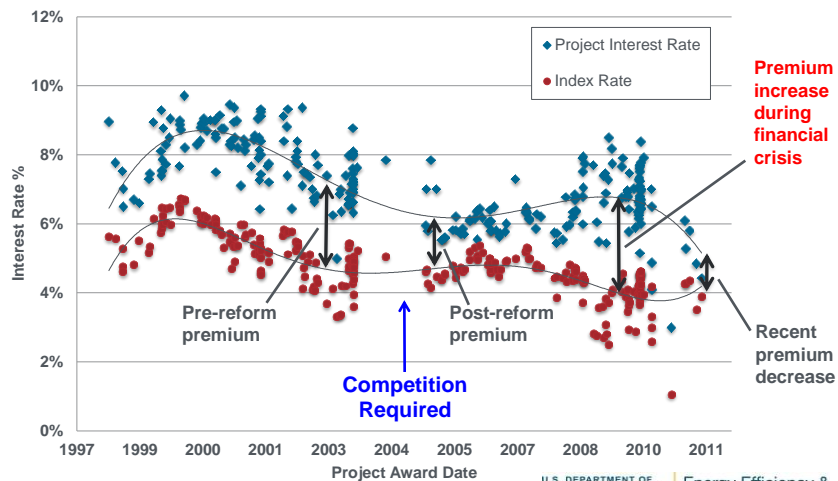
- ESCO selects financing based on best value to the government
- ESCO provides a certified selection memo documenting process and rationale for selection
 - with IDS and SFO for selected offer

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Competition Can Cut Financing Costs

Competition cut interest rate premiums in half



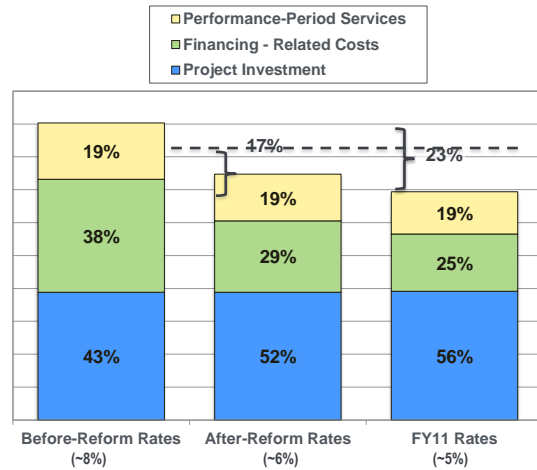
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Same Projects for 23% Less

Using post-reform financing rates, the sum of payments for the *average project is 23% lower than with pre-reform rates.

*Average project is calculated from all DOE IDIQ ESPC awards, excluding ARRA-funded projects.



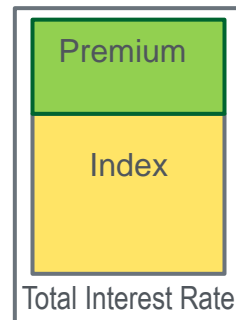
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Components of the Interest Rate

Index interest rate — usually largest component

- Represents the prevailing cost of money in the financial markets
- Changes day to day
- Any standard index can be used (e.g., like-term U.S. Treasury Securities)
- Web sources for rates
 - www.bloomberg.com
 - www.federalreserve.gov/releases/h15/current

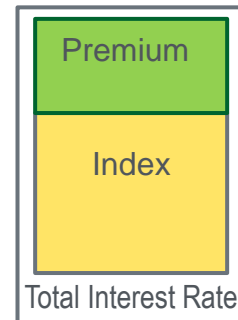


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The Premium

- Premium — Basis points added to index rate
(1% = 100 basis points)
- Premium covers
 - Lender's costs (legal fees, administration, etc.)
 - Lender's perception of risk



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Lender's Perception of Risk

- Consider: The financing deal is between the financier and the ESCO
- Lender's perception of risk is influenced by:
 - ESCO's credit rating
 - Agencies' payment history
(late payments, prepayments)
 - ESCO's track record (past performance)
 - Technical risk of the project
 - Level of M&V, complexity, etc.

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How can you minimize financing costs?

Borrow Less

- Incentives and Rebates – Public benefit program EE and RE incentives; utility rebates (*see FEMP's Web site: FEMP → Project Financing → Energy Incentive Programs*)
- One-Time Payments
 - Reduce the Financed Amount
 - Reduce Financing Costs One-time savings from avoided expenditures
- Construction-period savings/payments

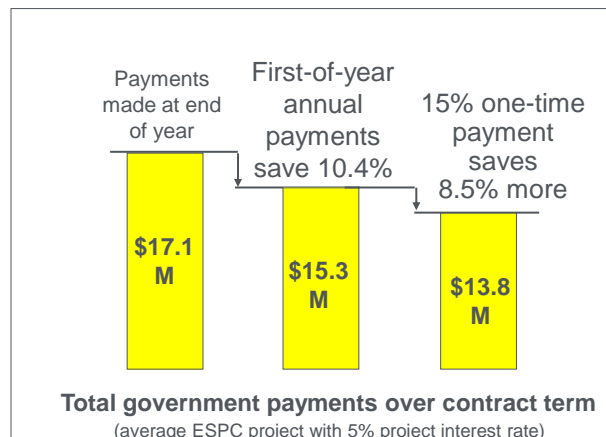
Pay it off sooner: Make annual payments at beginning of contract year

- This is permitted because savings must be greater than payments on an *annual* basis

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Use payment strategies to reduce interest costs and total project payments over term



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FEMP Best Practices for Financing Review

- Get guidance on financing review from the PF or other FEMP experts.
- Competition: Make sure your ESCO is soliciting multiple offers.
- Require justification for any differences between financier's offer to ESCO and ESCO's offer to government.
- Understand the details of the TO financial schedules, the SFO, and all components of the offer.
- Check the calculation of construction-period interest and other elements of the Financing Procurement Price (FPP)

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Review

Q1: Are the costs for performance-period services financed, and must they be covered by savings?

A: No and yes

Q2: What are the two components of the total interest rate?

A: Index and premium

Q3: Who are the parties to the financing deal?

A: ESCO and lender

Q4: What (in general terms) can agencies do to minimize financing costs?

A: Borrow less and pay it off sooner

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- Discussion – Adjourn for the day
- Next: Reviewing Pricing

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